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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | July 2019 www.krygierwealthmanagement.ca

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How often is too often?

Some investors are undoubtedly quite relieved to see the market rally in the first half of 2019. In fact, the first half of this year has been so good for stocks (up nearly 20% in both Canada and the U.S.), that depending on month-end numbers, it may be the best first half year of investment returns in 22 years – going back to 1997. Despite fears of an economic slow-down, worries over the repercussions from the U.S./China trade deal and the tit-for-tat tariffs, and an increasingly belligerent radical Islamist regime in Iran, markets have bounced back from the seemingly "pits of despair" that marked the quarter-ending December 2018. While for some investors this rebound provides a huge relief, no doubt for some investors it is not nearly as significant an event. This latter group, if they open their statements at all, may simply pick up their June month-end statements, note the improvement since the last time they ventured inside those annoying white envelopes, nod their head approvingly and then immediately afterwards they may toss the statements into their local shredder. For this group of investors, an investment statement is rarely a point of consternation, nor excitement, but rather nothing more than a fleeting mental "note to file".

What's prompting the great returns in 2019? In short – "Don't fight the Fed". That idiom represents the notion that Central Bankers can stimulate or restrain an economy, simply by lowering or raising short-term interest rates. When rates go lower, the cost of borrowing goes lower, less incentive exists to leave money in cash equivalents, and the cost of maintaining credit is easier; with the converse resulting when rates go higher. In 2018, the prevailing mindset was that Central Bankers, led globally by U.S. Fed Chairman Jerome Powell, would continue raising short-term rates a lot higher, with the auspicious result that December 2018 marked a drop for just about every asset class – perfect "correlation" with no strategy of diversification, other than cash, to protect one's investments. January 2019 marked the beginning of the complete about-face, as Powell signaled rate hikes were likely done, which morphed later in the year to signaling that rates might need to go lower. Markets have responded by pricing in lower rates, even before the Fed Chairman has actually done anything besides change the nature of his chatter. The European Central Bank, as well as the Australian Central Bank, has also signaled that lower rates are on the horizon. Canada remains one of the few holdouts – implying that, contrary to historical evidence, Canada is in fact an island and that rates may have to go higher. As time goes on however, it would make sense for Canada to join the rate-dropping "party". Other significant impacts from this change in attitude of Central Bankers, have been the turnaround in bond returns, as well as the price of gold, which has reared its sleepy head and may be foretelling a lower U.S. dollar in the years ahead.

So we are back to the question, how often is too often? Opening up those June statements is surely going to "feel good"; opening up the statements of last December – well, not so much. Behavioural finance studies regularly show that people hate pain more than they love pleasure, so if the prevailing attitude is that markets are doing poorly, avoidance of pain will dictate not checking statements, whereas if markets are doing well, then hey, why not check it every day, as on-line technology makes this as accessible as the nearest "smart" phone. So, which is the better method and, more importantly, which approach leads to better long-term investment returns, since after-all, isn't that the end-goal? More information clearly doesn't necessarily lead to better decisions, which is an argument for checking more infrequently. However, sticking one's head in the proverbial sand might result in festering problems not being dealt with in a timely manner, which is an argument for checking one's investment statements more frequently.

Michael Batnick, Director of Research at Ritholtz Wealth Management, recently published his findings that if an investor were to check his or her investment gains and losses on a daily basis, there would be a 46% chance that he would see a loss. If however, that same investor would check his profits and losses only once a year, there would be only a 26% chance that he would see a loss (remember that markets have historically gone up over time). The goal of a long-term investor should be to stay invested and continue compounding one's investment returns. However, as investment newsletter author Jared Dillian concludes, "If you are regularly showing losses, you are more likely to get frustrated and liquidate your investment – and stop compounding, which would be catastrophic." So what's the "sweet spot" – the Goldilocks "not too hot, not too cold" approach - to "how much is too much"? My experience tells me that the answer lays somewhere in the middle – perhaps even quarterly statements are sufficient for most. Checking one's daily balances creates stress and usually results in poor decision-making based on panic. Ignoring statements for a year or more might mean waking-up to find one's strategy of keeping 50% or more in cash equivalents resulted in missing out on a stock market rally, or that a losing investment dropped even further. Dillian suggests, "once a month should balance the competing concerns of having too much negative feedback, versus willful ignorance."

Bottom line

Investors need to constantly balance the media-barrage induced desire for more information "all the time" versus the need to be sensible. The key is to avoid poor decision-making with one's investments. Find the right balance which allows you to make the right "big decisions" – how much to invest long-term, how much risk am I willing to take, etc., and avoid "over-tinkering". Enjoy the summer heat and happy compounding!

Global benchmarks
As at June 30, 2019 (Canadian $ Returns)

Asset class	YTD	3 years	5 years
S&P/TSX Composite T/R (Canada)	16.2%	8.4%	4.7%
S&P 500 TR - US$	18.5%	14.2%	10.7%
NASDAQ Composite - US$	20.7%	18.2%	12.7%
MSCI Europe Index Price Return	8.7%	6.5%	2.5%
MSCI Emerging Markets	4.9%	8.6%	4.3%
China S.E Shanghai A Price Return	14.9%	-0.1%	10.0%
MSCI World Index Price Return	11.0%	10.1%	8.9%

Asset class	YTD	3 years	5 years
30-year U.S. T-Bond - US$	11.7%	0.9%	6.1%
10-year U.S. T-Bond - US$	7.5%	0.7%	3.2%
Long GOC Bond (2048)	12.2%	2.2%	6.7%
10-year GOC Bond	5.5%	0.9%	3.7%
5-year GOC Bond	3.1%	0.6%	2.0%
3-month CDN T-bill	0.8%	1.0%	0.8%
US$/CDN$ (1.3090)	-4.0%	0.4%	4.2%

Source: RBC Capital Markets Quantitative Research

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